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Re: Stranded Costs Working Group, Case No. PUE-2003-00062

Gentlemen:

On behalf of Appalachian Power Company, d/b/a American Electric Power ("Company"), enclosed are initial responses to the eight (8) questions listed in the Commission's "Order Establishing Proceeding" issued on March 3, 2003. Copies of this letter and the Company's responses to the questions (including attachments) have been sent to econfin@scc.state.va.us.

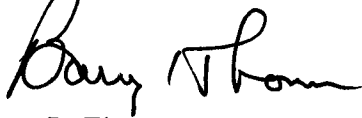
The Company's responses to the Commission's questions, in some cases, are based on a broad reading of the questions and, where appropriate, provide factual information more relevant to the implementation of stranded cost recovery generally, rather than specifically with respect to the Virginia Electric Utility Restructuring Act. The mix of specific references to the current Virginia restructuring statute and more broadly worded references to stranded costs /methodologies in the Commission's questions seemed to request information regardless of its technical relevance to issues under the current Virginia law.

The mix of considerations in the Commission's questions and the general complexity of the subject of stranded costs will require careful consideration by the Working Group. The subject is inextricably tied to the development and timing of competition in Virginia, and recent legislative developments may signal a change in Virginia's commitment to pursue competition as it has previously. These considerations will add to the complexity of the issues that the Working Group must face.

The Company would observe that the Virginia restructuring statute provides for a transition process under which stranded costs are recovered through a combination of capped rates and non-bypassable wires charges. There has been significant concern expressed by various parties that wires charges are inhibiting the development of retail competition in the Commonwealth. The Company acknowledges that wires charges, as prescribed by the Act, do have an impact on customer switching; however, other matters also affect whether or not customers switch. While still in the early phases of the transition period in Virginia, it is clear that additional changes will need to occur to create a robust competitive environment that provides the potential for customer benefits.

The Working Group deliberations on stranded costs will necessarily require the participants to maintain flexibility as they consider their initial responses to the questions and evolving positions on regulatory or legislative actions that might be proposed in Virginia. The Company looks forward to further participation in those deliberations in that spirit.

Sincerely,

A handwritten signature in cursive script, appearing to read "Barry Thomas".

Barry L. Thomas, Director  
Regulatory Services VA/TN

BLT/cde